

FEDERAL RESERVE BANK OF CHICAGO

REPORT OF BUSINESS CONDITIONS IN THE SEVENTH FEDERAL RESERVE DISTRICT

MARCH 25, 1920

Compiled March 22, 1920

EXTRAVAGANCE is Unabated in the Middle West, despite the measures taken to discourage the unwise use of money and credit at this time. This extravagance is stimulating inflation by swelling profits to such an extent that many manufacturers, particularly those engaged in the supply of luxuries, are undisturbed by the advance in discount rates, whereas the higher money rates are bearing down rather heavily on those operating on a narrower margin, many of whom are engaged in the manufacture of essential products. This in a measure explains the conflicting reports regarding business activities and also the slow loan contraction in response to the advance in discount rates by the Federal Reserve banks.

Farm Sales and Loans Aggregate Large:—Another feature is the strong demand for money from the agricultural districts, due to land settlements. Ordinarily the demand for this purpose, which manifests itself in the money market around March 1, subsides within ten days. On March 15 of this year, out-of-town banks were still carrying large loans, and explained the continued strain by the inability of abstract makers and recorders of mortgages to complete their records. Advices from all parts of the Seventh Federal Reserve District indicate that arrangements had been perfected to meet ultimately the land payments through mortgage loans, to be placed with insurance companies now in the market. On account of the unusually large number of transactions this year and because of the larger amounts involved in each transaction, it was physically impossible to complete abstracts and details necessary to enable earlier payment.

County after county in the selected list to which our questionnaire was sent reported aggregates of more than \$4,000,000, and in some instances \$14,000,000 or more in loans and sales during the first few days of March. These figures do not always include the actual value of land transferred for dollar consideration. If the same volume in number and value of land sales shown in these returns is maintained throughout Iowa, Illinois and Indiana, the aggregate for the Seventh Federal Reserve District as a whole will run well up into the hundreds of millions of dollars and may exceed the billion dollar mark.

Effect of Extravagance Felt in Markets for Materials:—Extravagance is also aggravating the scarcity of raw materials and finished products and this shortage of raw materials in nearly all lines is not only a dominant feature in industry but is becoming more serious from month to month. Manufacturers of the Middle West say that trade is limited only by inability to obtain raw materials for the manufactured products. Transportation irregularities are necessarily a factor in this situation. Implement makers point out that they will fall short of the farmers' needs this spring; automobile makers continue to complain, declaring that the shortage of materials clearly shows the lack of co-ordination of demand and supply. Especially does this shortage apply to steel. Purchasing agents declare that their supplies of steel are obtainable only on a hand-to-mouth basis and say that this situation will get worse instead of better.

On account of the great spread between demand and production of steel and iron, a curious development is noted. Although steel and iron prices are being maintained nominally on about the basis of war price regulation, a great number of brokers acting as "go-betweens" between buyers and producers, are offering steel for short delivery at prices very much above the basic prices of the industry. In this way buyers who are willing to pay extravagant premiums are able to have their orders booked for earlier delivery than less fortunate customers who have to await the general course of production. This is having a considerable effect in retarding structural and maintenance operations.

Soil Conditions Very Promising:—Soil conditions seem to be very propitious for the spring planting, for the reason that the winter just closing, although cold, showed less fluctuations in temperature than usual in this climate. The wheat crop, however, has suffered some deterioration.

Farm Labor Shortage a Serious Feature:—There is considerable apprehension over the farm labor supply in all parts of the district. Advices are that it is impossible to hold an unmarried man as a farm hand except on terms equal to those offered by city manufacturers, namely, short hours and high hourly rates. This is the chief explanation for the decline in wheat acreage. The increased prospective acreage of corn apparently represents an effort to stop the decrease in livestock herds through the Middle West.

Replies to our questionnaire regarding the farm status showed the average increase in farm wages from 1914 to be 70 per cent, the lowest reported being 20 per cent and the highest 100 per cent. The deficiency of farm labor showed by the average is 30 per cent of the total required to man the farms. In one region there is a deficiency of 80 per cent compared with normal, but the prevailing average ranges between 25 and 40 per cent.

Land Productivity Stimulated by War Prices:—The gross productivity per acre in the district appears to average \$95 against \$22 in 1914, but the valuation of lands covered by this inquiry have risen on the average from \$175 in 1914 to \$340 in 1920. This increase represents actual bona fide prices for prime farm lands. Many transfers are reported above \$400 an acre and one is reported at \$600 an acre. From other sources come reports of even larger figures. The corresponding price in 1914, based on actual sales and transfers, was between \$67 as the average low and \$175 as the average high. No quotation in this investigation of 1914 land values was above \$300, and the lowest reported in that year was \$35. Values of improved farms including machinery and buildings reflect less speculative activity, but prices range from \$700 down at present.

Cash renting of farm lands appears to be out of fashion, the rentals demanded being so high in comparison with the rentals of 1914 that it is regarded as cheaper to buy than to rent, and those who do rent prefer to do so on the share basis. Rentals as high as \$20 per acre per annum are reported in this district, but the average of replies is \$11, whereas the average of 1914 was \$6 per acre per year.

Opinion Differs as to Effect of Land Speculation:—Turning to land speculation and the conditions surrounding it about March 1, a majority of our correspondents are of the opinion that the speculation which has taken place is not of a dangerous character, though many believe it has tended to restrict production, while the remainder express apprehension regarding the effect of the boosting of farm land rentals and prices.

A very disturbing feature in the farm situation is the high price of feed. For instance, in some counties in northern Indiana, farmers have decided to cut their animal production to the point where they will not have to buy feed and to a point where they may again get their farms back into grass and roughage. This, together with the effect of the farm labor shortage, points distinctly to a reduction in acreage being worked.

Land Sales Stimulate Liberty Bond Buying:—Indications furnished by representative bankers in the Seventh Federal Reserve District point strongly to a general absorption of Liberty Bonds at the ruling market level. An Iowa banker writes: "We advise our clients to buy bonds at the present market price until it makes them hump-backed to carry them." As a result, "over the counter" business in government securities has changed in the last six months and instead of the selling of bonds being the principal business now the demand is on the buying side.

The proceeds of the farm land sales and transfers to a considerable percentage are going into Liberty Bonds. Our questionnaire sent to representative rural bankers in Illinois and Iowa indicates that from one to five per cent of the free cash resulting from realty sales is finding its way into Government bonds. If these replies indicate a general condition, it is probable that between \$75,000,000 and \$100,000,000, and possibly more, of Liberty Bonds have been bought in the open market with the profits arising from land sales. Extending this over the whole area of the United States, it would indicate a beneficial and progressive digestion of war bonds by the public.

Business Continues to Complain of Labor Inefficiency:—Labor inefficiency continues to be complained of, the criticism being that many working people show a disposition or a desire for short hours while giving poor service, which tends to cut down production considerably. The monthly questionnaire on labor conditions covering January indicates a shortage of help and an absence of strikes. The ratio of firms showing a shortage to those showing a surplus is fourteen to two, with six reporting normal, whereas a year previous the ratio was ten reporting a shortage to four reporting a surplus, and six showing normal conditions.

The February labor questionnaire does not show any material change so far, although still incomplete. The amount of the payrolls compared with a year ago is greater in most instances, despite the fact that the number employed is less. There are, of course, some exceptions. Some of the merchandising firms' reports show a decrease of 2 per cent in number of men employed compared with January, 1920, and 26 per cent compared with February, 1919, whereas the payroll of February is nearly 2 per cent greater than January and in one instance 58.7 per cent greater than a year ago.

Housing conditions continue to be a serious factor, and the scarcity of labor in some sections of the district is traceable to a shortage of housing facilities. Plans in Chicago and other manufacturing centers to utilize portable houses made for the Government in war times, promises some relief. There is a great demand for new buildings but investors continue reluctant to construct dwellings at the present high cost. There is also being experienced some difficulty in obtaining funds to finance building construction, which to some extent is due to inability to obtain assurance of prompt delivery of steel and other materials.

Such recessions as have taken place in wholesale commodity prices, and the backing up in this country of meats and other foodstuffs and commodities intended for export, so far have had only a spotted influence on retail prices. There are counter currents at work which make the prediction as to the price trend in the immediate future hazardous, although the accumulations may tend to hold in check further rises in commodity prices.

Merchandising Business Good:—Wholesale business seems to be holding up well for the present. In most lines, sales for the first quarter of the year were ahead of last year but there seems to be some question in the minds of merchants how long this will continue and hence they are conservative in making commitments. Some advices indicate that merchants are reducing their stock and not buying as largely as they did last year.

There seems to be no tendency toward thrift, numerous correspondents reporting lavish expenditures by wage earners. There is a little indication of conservatism to be found in advices regarding the automobile industry, higher prices being allowed in some instances on old cars turned in than were obtainable two months ago, which would seem to indicate that the product of the factories is moving a little slower. Labor shortage, however, is still a factor in this industry, despite its ability to pay more than many other trades.

Commercial Funds in Strong Demand:—The demand for money for commercial purposes continues very heavy and borrowers apparently are willing to pay any rate for accommodations. Commercial borrowing has been heavy but the banks appear to be depending upon rediscounting of paper to accommodate their customers. There is, however, an evidence of a desire on the part of the banks to cut down loans wherever possible.

Collections continue good. The number of business failures in the Seventh Federal Reserve District during February was sixty-six compared with eighty-seven the corresponding month of last year, while the aggregate liability in those defaults was \$1,876,499, compared with \$2,802,884 a year ago.

Movement of Credit Active:—The movement of credit reflected in the aggregate debits to individual account, continues to indicate great activity, the total debits as of March 10, reported by 182 banks in 22 leading clearing house centers, including Chicago, being \$1,109,735,000, which is \$90,655,000 greater than the corresponding week of the previous month, and \$190,834,000 greater than for the first week of March a year ago.

SELECTED MEMBER BANK STATISTICS—SEVENTH DISTRICT

(000's omitted)

	Chicago			Detroit			Other		
	50 Member Banks	Feb. 13	March 14	12 Member Banks	Feb. 13	March 14	45 Member Banks	Feb. 13	March 14
	March 12 1920	1920	1919	March 12 1920	1920	1919	March 12 1920	1920	1919
Total U. S. Securities	\$90,540	\$80,449	\$184,920	\$89,763	\$84,854	\$87,618	\$60,005	\$60,859	\$91,052
Loans—(exclusive of rediscount)									
Secured by U. S. war obligations.			65,379			9,840			14,702
(a) Liberty Bonds	52,601	51,155		9,813	9,902		13,999	13,729	
(b) Victory notes	14,585	14,062		2,389	3,091		2,690	2,760	
(c) Certificates of indebtedness	2,981	1,669		800	792		765	804	
Loans secured by stocks and bonds other than U.S. securities	364,838	385,112		60,076	57,405		57,147	56,076	
All other loans and investments (exclusive of rediscounts)	929,293	850,880	884,459*	299,816	302,763	247,436*	332,322	308,817	283,998*
Reserve Balance with Federal Reserve Banks	139,671	138,845	114,137	32,010	29,312	22,930	34,238	31,312	28,257
Cash in Vault	36,688	38,097	36,739	18,782	16,416	11,690	15,058	16,008	13,683
Deposits—									
Net Demand	1,028,898	985,018	843,932	229,489	226,053	161,606	270,801	261,105	238,194
Time	269,882	267,156	160,297	220,538	207,010	165,290	112,784	111,445	98,883
Government	2,548	12,121	47,446	1,526	7,382	14,773	1,072	4,853	11,921

*Includes loans secured by stocks and bonds except U. S. Securities

†Figures for March 14, 1919, were from 44 Chicago banks

RECEIPTS AND SHIPMENTS OF IMPORTANT COMMODITIES AT CHICAGO

(000's omitted)

	Receipts		Shipments	
	February	January	February	January
	1920	1919	1920	1919
Flour, barrels	1,007	390	1,144	622
Wheat, bushels	2,231	2,812	1,814	3,552
Corn, bushels	7,759	3,714	8,124	7,958
Oats, bushels	6,841	4,346	7,297	6,606
Cured Meats, pounds	6,599	18,840	10,547	18,793
Fresh Meats, pounds	82,284	79,322	103,459	118,143
Lard, pounds	13,670	15,282	20,757	17,835
Cheese, pounds	12,311	11,250	11,601	11,493
Butter, pounds	16,370	15,488	17,267	17,513
Eggs, cases	166	131	58	48
Potatoes, bushels	1,128	1,364	1,132	1,490
Hides, pounds	18,492	16,761	18,007	18,872
Lumber, thousand feet	235	98	208	134

RECEIPTS OF LIVE STOCK AT CHICAGO, COMPARED

(Four weeks ending March 18)

	Cattle	Calves	Hogs	Sheep
1920	208,881	56,085	616,104	250,537
1919	222,731	52,884	785,409	230,412
Increase	*13,850	4,701	*169,305	20,125
Decrease				

BUILDING PERMITS OF SEVENTH FEDERAL RESERVE DISTRICT CITIES

	—February, 1920—			—February, 1919—			
	No. of Permits	Estimated Cost	No. of Permits	Estimated Cost	Per Cent Gain	Per Cent Loss	
Illinois							
Aurora	18	\$ 25,325	5	\$ 7,000	262	—	
Chicago	276	10,417,700	197	1,755,150	498	—	
Decatur	29	228,350	23	33,975	572	—	
East St. Louis	49	78,897	20	59,260	33	—	
Evanston	34	69,080	14	15,815	336	—	
Peoria	31	101,525	13	19,600	418	—	
Rockford	37	118,735	—	—	—	—	
Springfield	65	584,430	40	37,485	1459	—	
Indiana							
Elkhart	3	15,500	2	3,450	840	—	
Evansville	55	39,765	45	44,835	—	11	
Fort Wayne	20	108,630	23	32,810	231	—	
Hammond	18	76,402	47	132,950	—	42	
Indianapolis	371	1,318,591	390	486,645	201	—	
Richmond	11	29,300	13	10,690	1694	—	
South Bend	126	82,089	42	39,913	105	—	
Iowa							
Cedar Rapids	28	106,000	15	32,000	231	—	
Davenport	73	310,500	60	60,500	413	—	
Des Moines	82	388,750	23	51,650	653	—	
Dubuque	6	13,500	19	45,800	—	27	
Mason City	20	26,500	5	6,265	323	—	
Ottumwa	13	42,000	11	9,000	364	—	
Sioux City	84	379,400	30	80,700	370	—	
Michigan							
Detroit	809	7,767,680	485	1,285,940	504	—	
Flint	105	234,687	—	—	—	—	
Grand Rapids	52	222,177	57	83,373	166	—	
Jackson	18	13,800	35	41,090	—	66	
Kalamazoo	16	136,700	14	46,450	194	—	
Lansing	57	77,225	16	27,930	176	—	
Saginaw	75	72,985	24	26,348	175	—	

BUILDING STATISTICS FOR THE MONTH OF FEBRUARY, 1920

(Which cover Illinois, Indiana, Iowa, Michigan, Wisconsin and portions of Missouri and Eastern Kansas, and include all of Chicago district.)

	Contemplated Projects		Contracts Awarded		
	No. of Projects	Valuation	No. of Projects	New Floor Space	Valuation
Business Buildings	455	\$23,121,900	249	2,769,300	\$13,510,300
Educational Buildings	121	12,823,500	40	679,900	3,875,100
Hospitals and Institutions	18	1,757,000	6	115,200	900,000
Industrial Buildings	300	58,860,000	211	5,040,200	24,344,000
Military and Naval Buildings	3	89,000	1	—	21,000
Public Buildings	19	709,000	7	16,300	720,000
Public Works and Public Utilities	439	65,872,600	177	—	22,010,000
Religious and Memorial Buildings	47	2,348,500	6	22,900	162,000
Residential Buildings	941	35,792,300	581	2,947,800	11,732,200
Social and Recreational Buildings	85	18,459,200	19	248,700	1,280,000
Miscellaneous	1	1,100	2	—	20,800
Total	2,429	\$214,884,100	1,299	—	\$78,082,400

CONTRACTS AWARDED

(January 1 to March 1)

1920	\$139,506,000	1916	\$48,668,000	1912	\$13,724,000
1919	68,465,000	1915	25,281,900	1911	31,884,000
1918	33,438,000	1914	27,419,000	1910	26,185,407
1917	60,188,000	1913	22,330,000		

BUILDING STATISTICS FOR THE MONTH OF FEBRUARY, 1920

ALL DISTRICTS

(States north of the Ohio and east of the Missouri rivers.)

	Contemplated Projects		Contracts Awarded		
	No. of Projects	Valuation	No. of Projects	New Floor Space	Valuation
Business Buildings	1,419	\$76,543,800	808	8,514,200	\$48,960,100
Educational Buildings	370	42,099,600	90	1,618,300	9,474,700
Hospitals and Institutions	74	7,807,300	22	162,600	2,365,800
Industrial Buildings	882	115,027,600	567	15,126,700	70,641,100
Military and Naval Buildings	11	306,000	7	—	169,500
Public Buildings	94	3,261,800	32	61,300	4,147,100
Public Works and Public Utilities	975	141,122,100	353	—	43,543,300
Religious and Memorial Buildings	135	7,389,400	26	77,400	724,000
Residential Buildings	2,808	109,064,600	1,654	9,665,000	37,463,600
Social and Recreational Buildings	267	31,172,500	67	839,800	4,153,000
Miscellaneous	2	2,100	2	—	20,800
Total	7,037	\$533,796,800	3,623	—	\$216,663,000

CONTRACTS AWARDED

(January 1 to March 1)

1920	\$452,511,000	1916	\$129,065,000	1912	\$ 81,004,500
1919	145,834,000	1915	92,084,400	1911	104,756,000
1918	298,770,000	1914	90,164,000	1910	89,945,407
1917	186,041,000	1913	182,875,000		

(Building statistics compiled by the F. W. Dodge Co.)